



REGULATORY INTERPRETATION 1999-RI-09

Date: April 6, 1999

Subject: Proposed Federal Home Loan Bank Capital Stock Redemption Fee Option

Request Summary:

A Federal Home Loan Bank (FHLBank) has requested that the Federal Housing Finance Board (Finance Board) determine whether a FHLBank has the authority under the Federal Home Loan Bank Act (Bank Act) and Finance Board regulations to offer FHLBank members with excess capital stock the option of paying a fee to the FHLBank in lieu of having the member's excess capital stock redeemed by the FHLBank.

Analysis/Interpretation:

Finance Board staff determined that the proposed fee was not prohibited by the Bank Act or Finance Board regulations in effect at the time of the FHLBank request. However, at its March 19, 1999 meeting, the Board of Directors of the Finance Board adopted an Interim Final Rule (IFR) prohibiting all of the FHLBanks from imposing or accepting a fee in lieu of mandatory redemption of a member's excess capital stock. The specific reason articulated by the Board of Directors for adopting this position as an IFR at the March 19th meeting was to prohibit the FHLBank who made this request from implementing its proposed fee policy on March 31, 1999. The IFR goes into effect upon publication in the *Federal Register*, which is expected shortly.

The IFR solicits public comment on the rule during a 30-day comment period. In addition, the Board of Directors of the Finance Board adopted at the March 19th meeting an Advance Notice of Proposed Rulemaking (ANPRM) that requests public comment for a 30-day period, on how, by what means, and to what extent prohibiting or limiting the ability of the FHLBanks to pay stock dividends to members would assist the Finance Board in achieving the goal of reducing excess capital stock in the FHLBank System. Similarly, the ANPRM requests comment on whether the FHLBanks should be required to unilaterally redeem members' excess FHLBank capital stock to help achieve the goal of reducing excess capital stock in the FHLBank System.

If you have any questions concerning the issues raised in this letter, please feel free to contact Deborah F. Silberman at 202-408-2570.

This is a Finance Board regulatory interpretation within the meaning of the Procedures for Requests and Applications adopted by the Board of Directors of the Finance Board pursuant to Resolution Number 98-51, dated October 28, 1998. The regulatory guidance set forth herein may be relied upon subject to modification or rescission by action of the Board of Directors of the Finance Board.